

Message Text

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FM SECSTATE WASHDC

TO AMEMBASSY MANILA

LIMITED OFFICIAL USE STATE 092709

E.O. 11652: N/A

TAGS: AMGT

SUBJECT: COMPLIANCE WITH INSPECTION REPORT: USEA ACCOUNTING
PROCEDURES

REF: MANILA A-45, FEBRUARY 13

1. WITH REGARD TO INSPECTORS' RECOMMENDATIONS 28-1 AND 28-4, INSPECTOR GENERAL'S OFFICE STATES THAT USEA IN MANILA IS FOLLOWING INCORRECT ACCOUNTING PROCEDURES BY OVERSTATING EXPENSES AND UNDERSTATING PROFITS. STATING THAT ISSUE IS NOT JUST THE DEPRECIATION SYSTEM, AS DISCUSSED IN EMBASSY'S COMPLIANCE REPORT, S/IG ASKS THAT USEA ACCOUNTING SYSTEM BE CORRECTED.

2. TEXT OF S/IG MEMORANDUM ON SUBJECT IS AS FOLLOWS:
QUOTE THE DISCREPANCY THAT RECOMMENDATIONS 28-1 AND 28-4 ARE INTENDED TO CORRECT IS THE CURRENT OVERSTATEMENT OF EXPENSES AND CONSEQUENT UNDERSTATEMENT OF PROFITS. BY BOTH WRITING-OFF IMMEDIATELY AS AN EXPENSE THE COST OF CAPITAL ASSETS WHEN THEY ARE ACQUIRED, AND BY SETTING UP WHAT IS IN EFFECT A DEPRECIATION ACCOUNT (BECAUSE IT IS CHARGED AGAINST EXPENSES AND NOT AN ALLOCATION OF RETAINED EARNINGS), USEA IS TWICE CHARGING AS EXPENSE THE COST OF SUCH ASSETS.

QUOTE GENERALLY ACCEPTED ACCOUNTING PRINCIPLES REQUIRE THAT THE COST OR OTHER BASIC VALUE OF A TANGIBLE CAPITAL ASSET, LESS SALVAGE IF ANY, MUST BE ALLOCATED AS

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EQUITABLY AS POSSIBLE TO THE PERIODS DURING WHICH THE

ASSET IS EXPECTED TO RENDER ITS SERVICES. THUS, THE ASSET'S COST SHOULD BE DEPRECIATED BY AN ACCEPTABLE METHOD APPLIED ON A CONSISTENT BASIS OVER A REASONABLE LIFE. ONE OF THE OBJECTIVES OF AN EMPLOYEE ASSOCIATION IS TO CHARGE PRICES THAT WILL COVER ALL COSTS AND COME AS CLOSE AS POSSIBLE TO BREAKING EVEN. BY WRITING-OFF THE TOTAL COST AT TIME OF PURCHASE OF ASSETS THAT WILL BENEFIT FUTURE PERIODS, EMPLOYEES AT POST IN THE YEAR THE ASSETS ARE PURCHASED AND WRITTEN-OFF WOULD BE OVERCHARGED IN ORDER TO COVER ALL COSTS AND EMPLOYEES IN FUTURE YEARS WOULD BE UNDERCHARGED.

QUOTE IT IS TRUE THAT THERE ARE SPECIAL OCCASIONS WHEN AN IMMEDIATE WRITE-OFF OF FIXED ASSETS MAY BE ADVISABLE FOR A NON-PROFIT ORGANIZATION. EXAMPLES ARE: WHEN NO DIFFERENTIATION IS MADE BETWEEN CAPITAL AND OPERATING EXPENDITURES (AS IN SOME GOVERNMENTAL BUDGETS); WHEN THE CAPITAL GOODS ARE DONATED AND NO PROVISION NEED BE MADE FOR THEIR REPLACEMENT; OR WHEN CAPITAL EXPENSES ARE SO SMALL IN COMPARISON TO OPERATING EXPENSES THAT AMORTIZATION IS NOT WORTH THE BOTHER OR EXPENSE. NONE OF THESE REASONS APPLY TO THE USEA.

QUOTE HOWEVER, IF USEA CONTINUES TO WRITE-OFF IMMEDIATELY THE COST OF FIXED ASSETS, IT THEN BECOMES IMPROPER TO CHARGE CURRENT EXPENSES FOR THEIR EVENTUAL REPLACEMENT. IT WOULD BE POSSIBLE, HOWEVER, TO EARMARK A PORTION OF RETAINED EARNINGS/PROFITS FOR SUCH PURPOSE IF USEA FEELS THIS IS NECESSARY.

QUOTE S/IG RECOMMENDS THEREFORE, THAT EMBASSY MANILA IMPLEMENT RECOMMENDATIONS 28-1, AND 28-4. IF THE USEA STILL WISHES TO CONTINUE THE PRACTICE OF AN IMMEDIATE WRITE-OFF OF FIXED ASSETS, IT SHOULD ALTERNATIVELY CEASE CHARGING OPERATING EXPENSES WITH THE "PROVISION FOR EQUIPMENT REPLACEMENT." THE PREVIOUS BALANCE SHEETS SHOULD BE CORRECTED ACCORDINGLY. END QUOTE.

ROBINSON

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